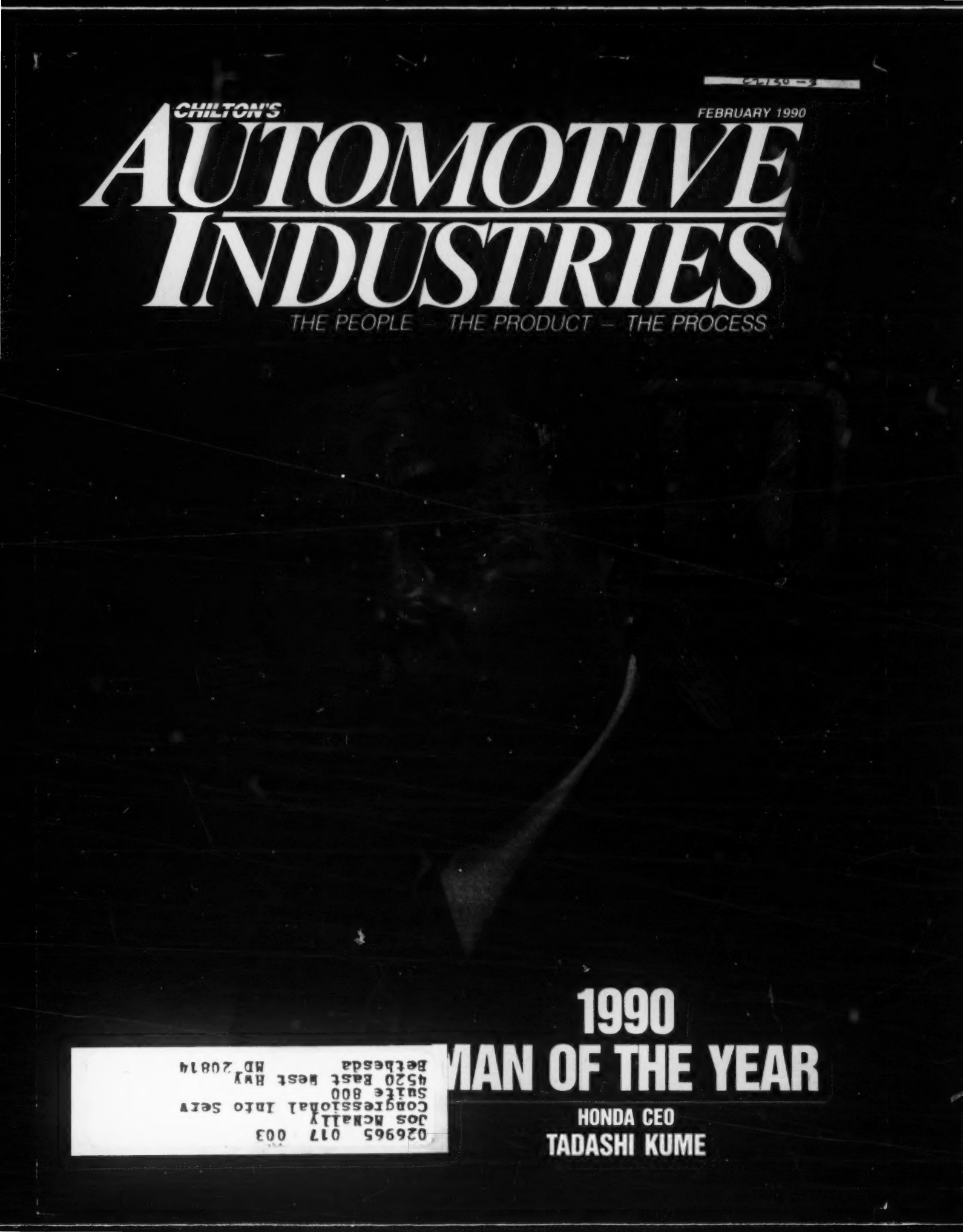
CHILTON'S
FEBRUARY 1990

AUTOMOTIVE INDUSTRIES

THE PEOPLE – THE PRODUCT – THE PROCESS



1990 MAN OF THE YEAR

HONDA CEO
TADASHI KUME

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FEBRUARY 1990 VOLUME 170, No. 2

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AUTOMOTIVE INDUSTRIES (ISSN 0273-656x) magazine is published monthly by Chilton Co., Chilton Way, Radnor, PA 19089. Chilton Company is a division of Capital Cities/ABC, Inc., New York, NY. Subscription rates: 1 yr. $49.95 US; $100.00 foreign. Phone (215) 964-4152. Second Class Postage paid at Wayne, PA 19087 and additional mailing offices. POSTMASTER: Send address changes to AUTOMOTIVE INDUSTRIES, Circulation Dept., Chilton Way, Radnor, PA 19089. © Chilton Company, 1990. Permission to photocopy for internal use or the internal use of specific clients is granted by Chilton Company for libraries and other users registered with the Copyright Clearance Center (CCC), provided that a base fee of $1.00 per copy of the article, plus 25¢ per page is paid to the CCC, 21 Congress St., Salem, MA 01970. Address special requests to The Editor. (0273-656x/85 $1.00 + 25¢)

*ONE OF THE **ABC PUBLISHING COMPANIES**, A PART OF **CAPITAL CITIES/ABC, INC.***

The New Big Three

Not many companies brag that they're Number Three. But don't be surprised to hear Honda do so. By year end – with the extra production from its East Liberty, OH assembly plant – **Honda could sell more passenger cars in the United States than Chrysler.**

Chrysler, for it's part, takes a rather cavalier attitude about losing its Big Three ranking. "I don't know what the importance of being Number Three or Number Four is. What Honda does Honda will do," says Chrysler's vice chairman, Bennet Bidwell.

Thank you, Infiniti...

For pulling those stupid ads. We just **couldn't take it anymore** – the rocks, the trees, the fish, the birds and the narrator, who we wanted to choke. Now rumor has it that the most abstract ad campaign in modern times has been cancelled. Kaput. So much for experimental advertising. Now if we could only remember what your cars look like...

IMPORTant News

Flash from Japan! Figures just released show that the Honda Accord is the only American-built nameplate to make the **top ten list of new import car registrations in Japan**. But equally important as the relative rankings, are the numbers of units involved. Clearly the market is headed nowhere but up – but where are the Big Three?

Japan Import Registrations

Vehicle	*Country*	*Units Sold*	*'89/'88%*	*% Share*
Volkswagen	W Germany	34,674	24.1	19.2
BMW	W Germany	33,076	23.3	18.3
Mercedes	W Germany	31,511	39.3	17.5
Audi	W Germany	14,306	26.1	7.9
Austin Mini	G Britain	9,919	47.3	5.5
Volvo	Sweden	7,122	53.7	3.9
Accord	U.S.A.	4,697	-12.9	2.6
Peugeot	France	4,586	94.0	2.5
Porsche	W Germany	4,053	66.5	2.2
Citroen	France	3,908	61.7	2.2

Source: JAIA

Daddy, What's a Station Wagon?

"The minivan has become **a replacement for the station wagon,**" says Dr. Thomas O'Grady, president and chief analyst of Integrated Automotive Resources, Inc.

Before 1984 – the year Chrysler introduced its minivans – small vans accounted for no more than 31,000 sales, while station wagons took 10% (895,000 units) of the domestic market. Since that time, station wagons sales have dropped to 590,000 units in 1989, while minivans grabbed 850,000 sales last year.

"The growth in minivans," says O'Grady, "has come from the aging of the Baby Boomer generation, and the realization that these vehicles are suited to a number different purposes."

Even so, automakers have not abandoned the station wagon market, but the trend is to an even greater relaince on sales of minivans and multi-purpose vehicles.

A Brand New Market

"I see Eastern Europe as the outstanding business opportunity confronting us in the next couple of years," notes John Day, president of Allied Signal's Automotive Group. "It's a only a two- to three-million-unit market today and **there's no reason why it can't grow** to 12 or 13 million units – as big as Western Europe." He adds that the automakers and suppliers which react the fastest are the ones who are going to get that new business. Allied- Signal now has liscensees in Poland, Hungary and Yugoslavia.

MILKING THE CASH COW

Or, how Chrysler Finance makes its millions.

by JOSEPH M. CALLAHAN

Cash cows" have been defined as business operations that produce significant profit for a company when it needs money for additional investments, or when the profit of other divisions is faltering.

Thus it's appropriate to call General Motors Acceptance Corp. (GMAC), Ford Motor Credit Co. (FMCC) and Chrysler Finance Corp. (CFC) the cash cows for their companies. These finance arms are important now – but they'll be even more important in the months ahead, as the industry heads into a sales slow-down.

In the first nine months of 1989, the finance companies had a total net profit of $1.56 billion, or 19.4% of the industry's total profit of $8.061 billion.

Chrysler Finance is the smallest of these financial organizations. It's still a good-sized business, with over 7000 employees in 443 US, Canadian and Mexican branch offices. And a good case can be made that CFC is also the most successful of these companies in terms of its contribution to the parent. With a $198 million profit in the first nine months of 1989, CFC produced 19.4% of Chrysler's $1.02 billion profit in this period. However, its contribution would have been 27.8% if Chrysler hadn't sold 75 million shares of its Mitsubishi Motors stock for $309 million.

By contrast, GMAC produced 24.4% of GM's $3.520 billion profit for this period and FMCC earned 14.3% of Ford's $3.521 billion net profit.

For the third quarter of 1989, Chrysler Financial reported net earnings of $76 million, the highest for any quarter since the company was founded 25 years ago. And gross receivables (outstanding loans) have risen to an incredible $40.2 billion, up from $36.6 billion a year earlier – almost a 10% increase.

BIG THREE FINANCE COMPANY PROFITS Jan.-Sept. 1989

	Finance Co.	Corp. Profit	% Of Total
GMAC	$3,520	$859	24.4
FMCC	$3,521	$503	14.3
CFC	$1,020*	$198	19.4

*Includes $309 million from sale of 75 million shares of MMC stock.

While CFC persists in its fundamental mission to be the banker for Chrysler's 5000 dealers, CFC chairman John P. Tierney says, "Two things are really responsible for our profit increase. One is that the company is 7%-8% bigger than it was last year. The other is our substantially expanded insurance operations."

According to Tierney, CFC provides two kinds of insurance – the traditional insurance offered as an option to dealers with wholesale financing, and Chrysler's 'Pentastar Protection.' The latter, started in 1987, covers a dealer's building, workman's comp and liability.

The success of this rapidly growing business, Tierney says, is based on CFC's determination to maintain consistent premiums, plus a top-notch loss-control program based on the principal that if claims are controlled, the insurance will be cheaper in the long run.

Since taking over at CFC, Tierney, who was the finance VP of American Motors until it was absorbed by Chrysler in August, 1987, has emphasized a strategy of "securitization." This consists of selling its retail automobile and other loans to other lending institutions while CFC continues to collect and service these loans.

Funds from this securitization have then been turned over to its other two more profitable financing operations. These are Chrysler First, which loans money to consumers and small businesses, and Chrysler Capital, formerly E.F. Hutton Finance, which handles several billion dollars worth of commercial lending and leasing.

These two companies are involved in 16 non-automotive programs, including the leasing of 21,000 railway cars, a rapidly growing and large computer-leasing program, over $1 billion in marine financing, the funding of many alternative energy programs, the financing of numerous apartment houses and small commercial buildings, many LBOs (limited buy-outs), second mortgages, jet aircraft leasing and others.

In recent years, GMAC has entered the home mortgage business and Ford Motor Co. has invaded the S and L field. But CFC has avoided both of these areas, believing that home mortgage profits are too slim and that the troubled S and L's are not needed in the US since banking was deregulated.

When one thinks of big loans, the thought immediately comes to mind that in the early 1980s, Chrysler Corp. survived partly because of a $1.2 billion government loan guarantee.

"I wasn't here then," laughs Tierney when asked about this, "but when Chrysler Corp. lost its credit rating, CFC also lost theirs and wasn't able to get additional financing. The funds it had were needed for dealer financing."

For the future, CFC's goals are to support the sale and distribution of Chrysler and other vehicles, especially with the use of new technology, including rapid credit checks. Tierney explains that they'll continue to diversify and grow in the areas they're now in. Also, CFC is eyeing Europe and other world markets for new financing opportunities. AJ

AUTOMAKER QUARTERLY REPORT

by DR. THOMAS O'GRADY

The end of 1989 brought an automotive downturn. The automaker's responses to current problems will likely determine the market shares and positions they will hold over the next few years.

GM, which has the opportunity to recover, is instead cutting back on advertising and delaying products, as in the past. Without a strategy change, we expect GM's share of the passenger car industry to drop to between 26% and 28% in the nest few years. If GM is willing to invest in its new products—rather than worry about short-term profits—it could reverse its current sales slide.

Chrysler, which appears to be in trouble, is finally getting that old survival spirit back again.

As the 1990 model year commences, we see domestic automakers starting incentives earlier than ever before on most of their 1990 models, even offering cash rebates on some newly introduced vehicles. But the year's natural disasters kept more customers away from the showrooms during the fourth quarter of '89.

Will 1990 be the year of the incentive?

Even the Japanese are struggling in today's market. However, Mitsubishi looks especially good right now. Mitsubishi nearly doubled its passenger car volume since 1988, making it the ninth largest automaker in the US—and bumping Subaru from the list of top-ten car manufacturers. With its recent growth, however, Mitsubishi will become a marketing target for the other Japanese car manufacturers for the first time since it entered the US market.

The Honda Accord topped the best-selling nameplate list for 1989, making the first time an import holds that position in a calendar year. Honda and Toyota each had two models (all four of which are produced domestically as well as imported) on the top-ten list during the quarter.

More detail on automotive sales and production is available in *Fast Track News*, a newsletter published 60 times a year by Integrated Automotive Resources, Inc. Call 215-687-1559 for subscription information. AI

Dr. Thomas O'Grady is president and chief analyst of Integrated Automotive Resources, Inc. in Wayne, PA.

WHAT'S HOT!
Domestic Auto Sales
4th Quarter 1989

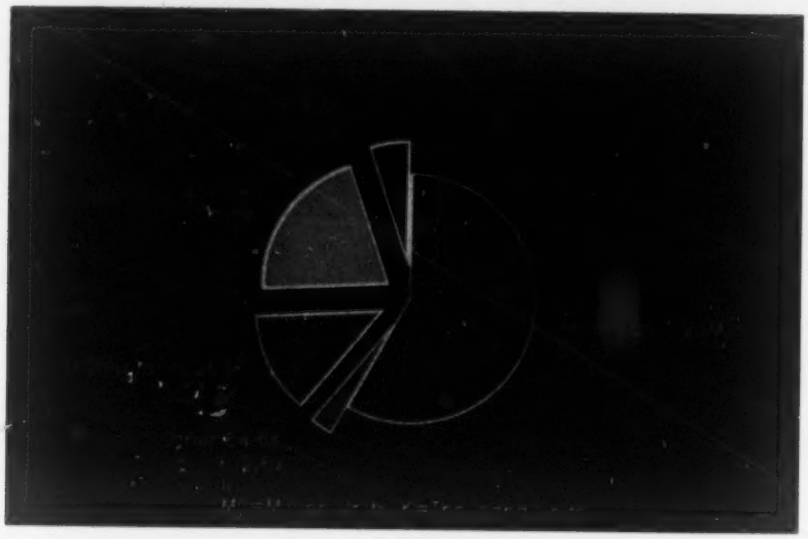
Carline	'89	'88	% Change
Accord*	99,419	99,147	0.27%
Taurus	75,534	87,710	-13.88%
Cavalier	65,049	75,852	-14.24%
Camry*	61,956	69,088	-10.32%
Escort	60,386	93,205	-35.21%
Civic*	56,875	46,853	21.39%
Tempo	55,263	68,445	-19.26%
Lumina	50,172	--	--
Corolla*	49,735	59,541	-16.47%
Corsica/ Beretta	46,206	72,874	-36.59%

*—Includes imports

US Passenger Car Market Shares
4th Quarter, 1989

Manufacturer	'89 Sales	% Total	'88 Sales	% Total	% Change
General Motors	672,140	34.70%	880,698	37.58%	-23.68%
Ford	433,747	22.39%	538,626	22.98%	-19.47%
Chrysler	213,843	11.04%	272,170	11.61%	-21.43%
Honda/Acura	193,600	10.00%	204,948	8.74%	-5.54%
Toyota/Lexus	173,229	8.97%	189,127	8.07%	-8.14%
Nissan/Infiniti	103,173	5.33%	105,771	4.51%	-2.46%
Mazda	49,945	2.58%	52,884	2.26%	-5.56%
Hyundai	37,219	1.92%	55,316	2.36%	-32.72%
Mitsubishi	31,532	1.63%	13,822	0.59%	128.13%
VW/Audi	27,923	1.44%	30,428	1.30%	-8.23%
TOTAL CARS	1,936,851	100%	2,343,790	100%	

(Continued on p. 156)



Passenger Car Market Share By Geographic Base

Fourth Quarter 1989

Manufacturers	Total Sales	Total Market Share
American	1,184,398	57.81%
Japanese	437,136	21.34%
European	103,686	5.06%
Transplants	268,988	13.13%
Other Imports	54,675	2.67%
Total	**2,048,883**	**100.00%**

4TH QUARTER 1989 DOMESTIC LIGHT TRUCK PRODUCTION*

COMPANY	FULL-SIZE TRUCKS	COMPACT TRUCKS	FULL-SIZE VANS	COMPACT VANS	FULL-SIZE SPORTS UTILITY	COMPACT SPORTS UTILITY	TOTAL 4Q '89	TOTAL 4Q '88
CHEVROLET	133,145[1]	38,078	38,181	48,345	19,025	26,859	303,633	374,899
FORD	160,628	70,234	38,222	47,554	14,100	29,596	360,343	403,318
GMC	47,564[1]	9,924	13,465	11,666	8,804	9,011	100,434	112,878
CHRYSLER	16,897	20,341	23,088	122,711	---	---	183,037	200,201
JEEP	---	3,444	---	---	1,495	49,325	54,264	81,518
NISSAN	---	31,797	---	---	---	---	31,797	24,908
PONTIAC	---	---	---	7,120	---	---	7,120	---
OLDS	---	---	---	3,730	---	---	3,730	---

[1]Includes Suburban and P-model. *Built in the US and Canada.